

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

A. Major Constitutional and Statutory Provisions

Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that do not exceed that fund's revenue estimates, including beginning unreserved fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-1993, is 48.97 %.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2002-2003 are not yet complete. For fiscal year 2001-2002, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 64.3%, reflecting payments that exceeded the minimum required by \$3.8 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2002-2003.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2002-2003 are not final. For fiscal year 2001-2002, the most recent year for which final calculations are available, total State revenues subject to this

limitation were beneath the constitutional limit by \$3.9 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2002-2003.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 2002-2003 (in millions):

Beginning unreserved fund balance	\$ 145.2
Interest income	1.8
Transfers to General Fund	(124.1)
Transfers to School Aid Fund	(32.0)
Transfers from State Trunkline Fund	9.1
Ending unreserved fund balance	<u>\$ -</u>

The transfers to the General Fund was pursuant to P.A. 504 of 2002, Section 353c(15). This transfer was made to ensure a

balanced General Fund budget. The transfer to the School Aid Fund was pursuant to P.A. 144 of 1997, Section 3. This transfer was made for the purpose of making appropriations to school districts and intermediate school districts as required by P.A. 431 of 1984, as amended. The transfer of \$9.1 million from the State Trunkline Fund is a return of excess funds received in prior years, pursuant to P.A. 144 of 1997.

Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were no net overexpenditures or line-item overexpenditures by State departments during the year.

Subsequent to the release of this report, the State publishes "Statewide Authorization Dispositions" to demonstrate its compliance with the legal level of budgetary control. The report includes line-item appropriation details for the General Fund and budgeted operating funds, and is available by contacting the Office of Financial Management at (517) 373-3029.